

PRACTICAL STEPS IN THE ORGANIZATION OF
A FIRE INSURANCE AGENCY

A THESIS

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BY

ALBERT H. SADDLER

DEPARTMENT OF BUSINESS ADMINISTRATION

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CHAPTER I

INTRODUCTION

The primary purpose of insurance is to eliminate a risk which may cause a loss that a business or an individual cannot bear alone. Insurance may be defined broadly as the guaranty by one person to another against accidental loss, or as a device whereby members of a group in one business or social classification pool money in a company or classification association to meet the losses, to create reserves, to provide a surplus against the years of abnormal losses, and to pay dividends to stockholders or savings to policyholders. Premiums are calculated on the basis of past experience. The insurance companies set average rates low enough to attract customers and high enough to cover the average losses.

Fire Insurance. -- It would be impossible to secure a loan or mortgage on property unprotected by fire insurance. Such insurance is essential to credit and is a basic element in the business structure. Although cost varies widely according to the kind of protection, average rates have become established at a relatively low level.

It is estimated that losses caused by fire in the United States exceed a billion dollars each year. More than 60 percent of these losses arise from fires that could have been prevented. Fire insurance companies spend a substantial amount of money each year for fire-prevention research. In fact, most of the improvements in fire protection and in fire-fighting

devices have been initiated by the fire insurance companies.¹

The provisions of the several standard fire insurance policies have been determined by judicial decision and the policies themselves are not often modified. Six forms of fire insurance policies are used in this country: The first, New York Standard Fire Policy (1816); the second, New York Standard Fire Policy (1918); the third, New York Standard Fire Policy (1943); the Massachusetts Policy; the Iowa Policy; and the California Policy.

Method of Procedure. -- In order to give a comprehensive picture of the problem, this study begins with state insurance regulation emphasizing particularly the predominant legal phases and showing a typical Examination for License Requirements.² The testular analysis is taken principally from an actual study and investigation made of a local fire insurance agency.³ In the discussion on Agent's Commission, the writer has not limited the study to fire insurance alone, but to other phases of insurance, such as casualty, etc. The writer feels that since casualty insurance is used as a feeder to fire insurance, the extension is important in this study.

¹ A. E. Taylor, "Fire Insurance," Pittsburgh Business Review, Vol. XIX, No. 5 (June 30, 1949), p. 14.

² Information obtained from Insurance Commissioner, Atlanta, Georgia (See Appendix A).

³ Information obtained from Local Fire Insurance Agency (See Appendix B).

CHAPTER II

FIRE INSURANCE REGULATIONS

Agency companies appoint local representatives in the communities in which they do business and pay the agents a commission on all business which they originate. Under the agency system a local agency may represent a group of companies, and the multiple line agencies write business for a number of companies in several or all of the various insurance groups. Companies are able to write on a nation-wide business basis and secure a diversified classification of risks economically through the utilization of local agents. The agent is a company representative, and the authority under which he operates is delegated through the medium of an agency contract.

In the organization of an agency company it is extremely important that one becomes familiar with the laws of the particular locality in which the business is to be established.

As to state restriction, bond, commission, licensing requirements and examinations, requirements vary considerably. For example, the actual working practices of the broker and the company agent differ very little. State restriction for each vary somewhat, however.

If one is a broker, he obtains a license and then submits the applications for insurance requested by his customer to the several companies writing fire, casualty, or whatever is the type of insurance desired. In other words, he can approach three different companies for one client and

the three can participate, each taking a part of the risk. On the other hand, if he desires to be a company agent, he must apply for an agency with a company in each type of insurance.

In some states a broker is permitted to handle only fire insurance. To sell casualty, life, and other types of insurance in such states one must be a company agent. Generally, the state insurance commissioner reserves the right to revoke insurance license where such action is considered necessary.

Bond. -- In several states the law provides that an insurance broker be bonded. The amount of bond required differs in each state.

Commission. -- Insurance commissions are fixed by the individual companies rather than by the local insurance association. They are regulated by state laws only with respect to the amount an agent may pay a non-resident agent or broker, and here, too, the laws of the various states differ.

Licensing Requirement. -- Certain procedures must be followed before a license to do business can be obtained. In general, the state law is administered by a state insurance commissioner with whom an application giving the required information is filed.

In some states the applicant must give, in addition to his name, age and residence, his occupation for several years preceeding the date of application. In other states the commissioner of insurance may ask for such additional data as whether the applicant has ever been discharged as

an employee or agent in the insurance business or been found guilty in any court. Some state laws demand references and a few require the applicant to pass an insurance examination. (See discussion on Examination). He may also have to show that he has had experience as a solicitor. The laws of every state require annual renewal of the license, but the date for such renewal varies in the different states.

Examination. -- Examinations of insurance brokers are required by statute in only a few states recognizing brokers. This may be due to the fact that most insurance is written by company agents of the state that requires examination; some impose a fee. All states do not require examination of agents. In those states that make such provision, some charge a fee; others do not. The examination may be either oral or written. Help in preparing for the examination is generally given the applicant by the field man of the company involved. A few states require examination of solicitors. The following is a typical fire insurance examination:

1. If a policy expires on January 15 and the insured obtains another policy with another company on the same day, and a loss occurs at 9:30 a.m.

- (a) The first company is liable.
- (b) The second company is liable.

2. When the fire insurance policy holder dies, does the policy remain in effect?

3. When a tenant moves out of a building and the owner installs a new

tenant two weeks later, does the policy become valid?

4. If a house is insured for \$5000 and later the owner takes out a \$5000 policy with another company, does the policy become void?

5. When an insured is dissatisfied with the estimate of loss furnished by the insurance company and hires an appraiser--

- (a) The insurance company pays the appraiser
- (b) The insurance company does not pay the appraiser

6. When a house burns down and the owner brings suit against the insurance company several months later, is the suit thrown out of court?

7. When a house burns down and the owner does not file proof of loss until 90 days later, can the owner collect his claim?

8. When a house burns down and the mortgagee does not file proof of loss until 100 days later, can he collect his claim?

Answers:

1. (a) The first insurance policy expires at noon, standard time, on the date mentioned in the policy.

2. The policy remains in effect except in New Hampshire. In other states an insurance policy covers the legal representatives of the deceased.

3. The 1943 New York Standard Fire Insurance Policy provides that the insurance is suspended, not voided, while the building is vacant for more than 60 consecutive days.

4. Usually a rider is attached to a policy specifying whether other insurance may be written. In New York, the district of Columbia and other jurisdictions using the 1943 New York Standard Fire Insurance Policy,

the contract provides that other insurance may be prohibited. In Pennsylvania, Illinois, and California, the policy is suspended while other insurance is in force unless permission for such has been granted and this provision for limiting the insurance to an amount specifically set forth in the contract unless the insurance is subject to coinsurance.

5. (b) Each appraiser is paid by the party selecting him.

6. The insured may sue within 12 months after the fire has occurred provided he has complied with all the requirements of the policy. However, in many states the statute of limitation, which overrules any policy provision, permits suit to be brought within a greater length of time.

7. Proof of loss must be submitted within 60 days after loss occurs unless the company gives extension of time in writing.

8. Yes. The mortgagee is allowed 60 days beyond the 60 day period allowed to the insured to file proof of loss. If the company does not immediately notify the mortgagee that the insured has to file proof from the date on which he is notified by the company.

After an application has been filed with the insurance commissioner, proper references and examination submitted and approved, license purchased, and agreements with companies which are to be represented the agency is ready for operation. Also, it is vitally important that the agency secure items such as order blanks, binders, bill forms, daily report forms, monthly account forms, expiration file, policy file and insurance record-keeping supplies.

CHAPTER III

AGENCY OBLIGATIONS

Obligation to Company. -- Having chosen the companies with which the agent wishes to deal, he establishes and maintains a good reputation with them. It is his responsibility to see that the companies are not deceived about risks or hazards--the best way to do so is to work for a low loss ratio. No company will feel well-disposed toward an agent who obtains business that results in a net loss. However, an agent cannot prevent losses but he can be careful in accepting risks. Risks may be classified into two groups. First, there are actual physical hazards. For example, a frame building with a shingle roof involves a greater risk from fire than does a brick building with a slate roof, or large trees near a house may interfere with fighting a fire.

Moral risks comprise the second group. Careless smokers cause fires. Uncivic-minded individuals sometimes allow inflammable trash to accumulate near buildings. Unscrupulous persons have been known to set fire to their premises when business is bad and creditors are pressing. Therefore, the character and credit standing of an agent's client are important guides to elimination of undesirable risks.

In forms of insurance other than fire, hazards likewise may be both moral and physical. Some automobile drivers are careless about brakes, and poor brakes on an automobile are likely to cause an accident. A driver who drinks or has certain physical defects is a poorer risk than one

who does not have these deficiencies.

The money collected by agents in premiums is the property of the insurance company. It should be a trust fund and not subject to other expenditures. Exact and accurate records of all accounts are always kept.

The agent must know his local conditions thoroughly--the value of special examination cannot be stressed too emphatically. He inspects all business, new and renewal, as conditions may change and make a sizable difference in the risk. Many losses can be avoided through careful inspection.

Every sale made by the agent is represented by some form of contract. He sells the contract to meet a particular situation and makes only sound and true claims about the coverage of the insurance.

Obligation to Insured. -- Since policies and rates are standardized in the strong, well-managed companies, selling points depend largely on the quality of service which can be given the insured.

Since the insurance agent is the connecting link between the insured and the insurance company, he must explain the conditions of the policy to his client and advise him to protect his property with the least possible cost.

While most property owners buy insurance, few are familiar with the contract features of a standard policy. It is the duty of the agent to urge his customers to read their policies. They should understand the cover-

age involved and their obligations in case of loss. If they are warned they can protect their interests.

Giving the insured the best coverage available for his money is part of the superior service an agent can render if he hopes to build a substantial business. His responsibility does not end until all the representations made at the time of sale have been fulfilled.

Another important part of the agent service to the insured will be to watch carefully for the expiration of policies. The average customer forgets about the expiration of his policy. He will resent the fact that you have allowed his policy to expire without either renewal or notice.

Other Obligations and Duties. -- When interviewing the client it is the duty of the agent to remember that he won't or can't take all the insurance available. The agent must help him to choose the most essential, for instance, liability versus collision on an automobile and plate-glass versus fidelity-bond on a retail store. Let him make his own decisions but keep a record of what was recommended and what was refused. The agent is the insurance expert and must act as the client's adviser.

One of the first questions usually asked by the client is, "What does it cost?" At this point, the agent should be well prepared to answer intelligently. He should always give a definite reply, and never guess. The agent should never attempt to memorize rates because doing so is a hopeless and useless task. Prices are seldom mentioned because it is assumed that the client wants the protection he needs and is willing to pay

a fair amount for it. The established price is usually equitable.

When the policy arrives, it is checked and rechecked. All of the typewritten portions are checked--spelling of name, address, et cetera. It is also important to know that typographical errors are easily overlooked which is a precaution to the agent to be more careful. It is better for the agent to find mistakes than for the insured to discover them.

All clauses, endorsements, and other such contents of the policy should be proofed. The agent should make certain that all points are properly covered and that all contingencies are taken care of. In fact, the agent should ask himself the following questions: Are additional endorsements or privileges needed? Is there anything about the insured's premises or manner of doing business that would breach warrants or policy provisions? The agent is the expert. He knows the risk.

Insurance Agents' Commissions. -- The compensation for selling insurance is a certain percentage of the premiums collected and is known as commission. The rate of commission varies with the type of insurance sold.

Commissions on types of insurance other than life, run from 10 percent to 25 percent of the premium. The following listed commissions are representative of those paid by leading companies in the District of Columbia for casualty insurance and for fidelity and surety bonds to local agents:¹

¹Information obtained from the Bureau of Foreign and Domestic Commerce, United States Department of Commerce, Washington 25, D. C.

CASUALTY INSURANCE COMMISSIONS

Casualty	Commission Percent of Premium
Compensation insurance.....	10
Automobile liability.....	17 1/2
Automobile property damage.....	20
Burglary, theft, and larceny.....	20
Health and accident insurance.....	25
Plate-glass insurance.....	25
Public liability.....	17 1/2
Property damage, other than automobile.....	17 1/2
Fidelity and Surety Bonds	
Fidelity, surety, and forgery bonds, except blanket...	20
Commercial and blanket position bonds.....	15
Bankers and brokers blanket bonds....	10

On fire and windstorm and extended coverage the commission for an agent who does not write his own policies would be 20 percent on all risks where minimum rates are used, such as on churches, convent school houses, dwellings, apartments, private barns and garages.

The commission would be 15 percent on most mercantile risks where specific rates are published, and 10 percent on risks where specific rates are published and known as special hazards. Where an agent writes the policy on his own series in his own office the commission would be higher.

Percentage versus Dollar Total. -- The mere fact that a local agent receives 20 percent on one type of insurance and 10 percent on another does not necessarily mean that the former is more profitable than the latter. For instance, on dwellings the commission is 20 percent but the rate may be only 9 cents per \$100 of insurance. Therefore, a consider-

able amount of insurance must be written in terms of total money value to produce, say, \$2,000 in premiums or \$400 in commissions. On the other hand, if one writes compensation insurance on a flour mill, the premium rate is so high that 10 percent of the premium represents a good commission.

Commissions the First Year. -- If an agent had a desire to specialize in insurance with the expectation of earning between \$1,500 and \$2,000 the first year. The following table indicates probable earnings from commissions on various types of insurance other than life insurance. The commissions in the seven groups add up to \$1,680.50.

**ESTIMATE OF FIRST YEAR'S INCOME FOR PRODUCER
NEW IN THE BUSINESS***

Kind of Insurance	Average Premium	Minimum Number of Applications	Total Premiums	Total Commissions
Automobile liability; property collision; comprehensive.....	\$35	50	\$1,750	\$ 316.75
Burglary and glass..	30	50	1,500	300.00
Liability.....	25	50	1,250	218.75
Accident.....	30	50	1,500	375.00
Miscellaneous casualty & surety			500	100.00
Fidelity and surety bonds.....			600	120.00
Fire and allied lines.....			1,250	250.00
Total, all kinds.....				\$1,680.50

*Based on interviews and conferences held with agents at local Fire Insurance Agency. (See Appendix B)

In different cities the percentage distribution of kinds of insurance sold will vary. For instance, in New York City an insurance agent will handle a larger percentage of automobile insurance than is indicated in the foregoing table. He is also likely to sell a greater percentage of miscellaneous insurance. On the other hand, the percentage of the total business represented by accident insurance will probably be less than shown in the table. In any case, the percentage for each will depend for the most part on the insurance agent's efforts in pushing it.

Through diligent work the agent can possibly get renewals from 80 percent of the casualty and surety policyholders. His annual renewal commissions on casualty and surety lines then may exceed half the income from new business the second year. If he renders the service which is necessary to build esteem, his clients will send him additional business. Assuming the same volume of new premiums throughout the second year, the agent might earn up to \$2,500 in the second year and count on an average increase in gross income of around \$600 for several years thereafter.

CHAPTER IV
OFFICE PROCEDURES

Application for Insurance. -- After the agency has obtained the license, certain necessary office procedures are carried out. The first step in the office routine is the application for insurance made for the insured by the agent. This application includes all data concerning the transaction such as name, address and property type of the insured. Amounts, terms description, writing data and dispatch directions are also recorded. One typical application form is shown below:

INSURANCE APPLICATION (FIRE, WINDSTORM, EXTENDED
COVERAGE)

NAME: _____		ADDRESS: _____		PROPERTY: _____	
DWLG _____		HHF _____		STOCK _____	
FIX _____		BLDG _____			
AMT. F. \$	\$ _____	\$	\$ _____	\$	\$ _____
T. \$	\$ _____	\$	\$ _____	\$	\$ _____
EXT. \$	\$ _____	\$	\$ _____	\$	\$ _____
TERM: ONE YEAR _____ 3 YEARS _____ 5 YEARS _____					
DESCRIPTION OR CONSTRUCTION: _____					
_____ POLICY DATE _____					
OCCUPANCY: OWNER _____ TENANT _____ TYPE OF BUS _____					
MORTGAGEE: _____		ADDRESS _____			
WRITING DATA					
AMT.	RATE		PREM.		COMPANY
\$ _____	\$ _____		_____		_____
ATTACH FORM: _____					
COMPUTED BY: _____					

The data included in the application blank forms the basis on which the policy is made up.

Make up of Policies. -- The policies are the contracts that state the terms by which both parties, the insured and the company, benefit. They are identified by numbers. They include perils (against the property insured), amount, rate, premium. The beginning date through the date of expiration are specified, also. These are standard forms and it must be understood that in order for the policies to be complete, other forms taken into consideration, the particular type of property insured must be added directly after the general policy forms have been filed. The following description is based on the present New York Standard Fire Insurance Policy, which has been in use since July 1, 1943.¹

The Insured. -- The insurance company agrees to protect against loss the named insured and legal representatives, provided, of course, that the insured has an insurable interest. The rights of persons other than the owner of the property must be specifically incorporated in the agreement. It is not uncommon to include the name of the mortgagee or loss payee in the contract. It must be remembered that it is not the property which is insured; rather, the person named in the policy is insured against loss arising from the perils covered. In case of death, the policy is not terminated but is continued for the insured's legal representatives, that

¹Hickernell, Warren F., Insurance Business (Washington 25, D. C., 1946), pp. 111-117.

is, executors or administrators.

Property of household guests and servants can be protected by an endorsement including them as insured in the policy.

A merchant may hold and be legally liable for property which he does not own. By endorsement, the policy can cover his interest in and legal liability for property held in trust but not delivered or removed.

Warehousemen storing goods for others may obtain a policy covering "as interests may appear." This provision protects the owners of the goods stored in the warehouse even though their names are omitted from the policy.

Description of the Property. -- Nowhere in the policy form itself is there space provided for a description of the property. In order to make the policy apply to a specific risk, a form including a description of the property is attached to the policy. This form may provide for coverage at specified location and at other locations off the described premises but not specifically mentioned in the description of the property. This form, of course, becomes a part of the contract.

Certain forms of property, such as accounts, bills, currency, deeds, money, notes, and securities, are not covered by the insurance policy. They are excluded because of the difficulty in determining and in proving the amount of loss. Bullion and manuscripts may be insured, however, if liability is specifically assumed.

Removal. -- The policy covers pro rata for 5 days at each proper

place to which any of the property shall necessarily be removed for preservation from the perils insured against in the policy, but not elsewhere.

Risk Assumed by the Insurance Company. -- The insurance company agrees to pay for any loss or damage caused by fire and/or lightning. A loss, such as smoke and water damage, resulting from a fire will also be paid.

Perils not Included. -- The insurance company is not liable for loss by fire or other perils insured against in the policy caused, directly or indirectly, by (a) enemy attack by armed forces, including action taken by military, naval, or air forces in resisting an actual or an immediately impending enemy attack; (b) invasion; (c) insurrection; (d) rebellion; (e) revolution; (f) civil war; (g) usurped power; (h) order of any civil authority except acts of destruction at the time of and for the purpose of preventing the spread of fire, provided that such fire did not originate from any of the perils excluded by the policy; (i) neglect of the insured to use all reasonable means to save and preserve the property at and after a loss, or when the property is endangered by fire in neighboring premises; or (j) by theft.

Conditions and Suspending or Restricting Insurance. -- Unless provision is made in writing and endorsed on the policy, the insurance company is not liable for loss occurring (a) while the hazard is increased by any means within the control or knowledge of the insured; (b) while a described building, whether intended for occupancy by owner or tenant, is vacant or

unoccupied beyond a period of 60 consecutive days; or (c) as a result of explosion or riot, unless fire ensue, and in that event for loss by fire only. If the explosion is preceded by a fire and the explosion is incidental to the fire, however, the entire loss is covered.

Other Perils or Subjects. -- Any other perils to be insured against or subject of insurance to be covered in the policy shall be in writing either on the policy or on a special endorsement attached to the policy.

Other Insurance. -- Other insurance may be prohibited or the amount of insurance may be limited by endorsement attached to the policy.

The Terms of the Policy. -- This must be stated definitely. Liability is assumed at noon of the day on which the policy goes into effect and expires at noon on the day specified in the policy. The term "noon" is defined at noon at standard time at the place of the loss.

Concealment and Fraud. -- The entire policy will become void, if whether before or after a loss, the insured has wilfully concealed or misrepresented any material fact or circumstances concerning the insurance, the risk covered, the interest of the insured in connection with the insurance policy.

Added Provisions. -- The extent of the application of insurance under the policy and of the contribution to be made by the insurance company in case of loss, and any other provision or agreement not consistent with the provisions of this policy, may be provided for in writing and attached to the policy, but no provision may be waived except such as by the terms

of the policy is subject to change.

Waiver Provisions. -- No permission affecting this insurance shall exist, or waiver of any provision be valid, unless granted in the policy or expressed in writing and attached to the policy. No provision, stipulation, or forfeiture shall be held to be waived by any requirement or proceeding on the part of the insurance company relating to appraisal or to any examination provided for in the policy.

Mortgagee Interests and Obligations. -- If loss under the policy is made payable, in whole or in part, to a designated mortgagee not named in the policy as the insured, such interest in the policy may be canceled by giving to such mortgagee a 10-day written notice of cancellation.

If the insured fails to render proof of loss, such mortgagee, upon notice, shall render proof of loss in the form specified in the policy within 60 days thereafter and shall be subject to the provisions relating to appraisal and time of payment and of bringing suit. If the insurance company shall claim that no liability existed as to the mortgagor or owner, it shall, to the extent of payment of loss to the mortgagee, be subrogated to all the mortgagee's rights of recovery, but without impairing mortgagee's right to sue; or it may pay off the mortgagee debt and require an assignment of the mortgage. Other provisions relating to the interests and obligations of such mortgagee may be added to the policy by agreement in writing.

Losses. -- As soon as a loss occurs the insured must do the following:

1. Notify the insurance company in writing immediately. Verbal

notice, however, is sufficient if acted upon.

2. Try to prevent further damage.
3. Separate the damaged and undamaged personal property and put it in the best possible order.
4. Furnish the insurance company with a complete inventory of the destroyed, damaged, and undamaged property, showing in detail the quantities, costs, actual cash value, and amount of loss claimed.
5. Submit satisfactory proof of loss to the insurance company within 60 days after loss occurs unless such time has been extended in writing by the insurance company. The proof of loss must be signed and sworn to by the insured and should contain the following based upon his knowledge and belief.
 - a. Time and origin of the loss.
 - b. Interest of the insured and of all others in the property.
 - c. Actual cash value and the amount of loss or damage claimed for each item on the inventory.
 - d. All encumbrances on the property.
 - e. All other contracts of insurance, whether valid or not, covering any of the property.
 - f. Any changes in the title, use, occupation, location, possession or exposure of the property since the policy was issued.
 - g. By whom and for what purpose any building described in the policy was occupied at the time of loss and whether it then stood on leased ground.
6. The insured shall also furnish a copy of all of the descriptions and schedules in all policies and, if required, verified plans and specifications of any building, fixtures, or machinery destroyed or damaged.

A typical example of a loss report form is as follows:

LOSS REPORT

Atlanta, Georgia _____ 19 ____

Assured

Agency

Company	Pol. No.	Amount	Coverage
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.

Claim No.

COMMENCEMENT

Cause

Location

Date of Loss 19 Estimate \$

Remarks

.

Reported by

Address

Phone No

Appraisal. -- When notified of a loss, the insurance company will send an adjuster to determine the amount of loss. The amount of loss is the actual cash value, or the amount of loss, the policy provides that, on the written demand of either, each shall select a competent and dis-

interested appraiser and notify the other of the appraiser selected within 20 days of such demand. When the appraisers are appointed, they must first select a competent and disinterested arbiter. If the appraisers cannot agree upon an arbiter after 15 days, then, on the request of the insured or the insurance company, an arbiter shall be selected by a judge of a court of records in the state in which the property covered is located.

The appraiser then appraise the loss, stating separately actual cash value and loss to each item. If they fail to agree their differences only shall be submitted to the arbiter. An award in writing, so itemized, of any two when filed with the insurance company shall determine the amount of actual cash value and loss. Each appraiser shall be paid by the party selecting him and the expenses of appraisal and arbiter shall be paid by the parties equally.

Company's Option. -- The insurance company reserves the option to take all, or any part, of the property at the agreed or appraised value, and also to repair, rebuild, or replace the property or damaged with other of like kind and qualify within a reasonable time, on giving notice of its intention to do so within 30 days after the receipt of the required proof of loss. This option, however, is rarely exercised because it creates a new contract between the insured and the insurance company and is always considered a dangerous undertaking.

Abandonment. -- There can be no abandonment to the insurance com-

pany of any property. In other words, an insured cannot compel the insurance company to take over the salvage and pay a total loss. Usually, the value of the salvage is agreed and determined just as are the amount of loss and the value of the property involved.

Payment of Claim. -- When there is an agreed proof of loss and the amount of loss has been determined to the satisfaction of both parties, the insurance company is required to pay the insured within 60 days.

The company's liability is reduced after a loss occurs. For instance, if the policy written for \$20,000 and a \$2,000 loss occurred, the company's liability for a subsequent loss is \$18,000. The original amount of the policy may be restored by the payment of an additional premium by the insured for the amount of the loss (in this case \$2,000) for the balance of the term of the policy.

Suit. -- No suit or action on the policy for the recovery of any claim shall be sustainable in any court of law or equity unless the requirements of the policy have been complied with, and unless commenced within 12 months following the inception of the loss.

Subrogation. -- The insurance company may require from the insured an assignment of all right of recovery against any party for loss to the extent that the payment is made by the insurance company. This enables the insurance company to take steps to recover from a third party responsible for the loss.

Pro rata Liability. -- The New York Standard Fire Insurance Policy

does not agree to pay a stated sum. The extent of liability of the insurance company is the amount which appears on the face of the policy. The amount payable at the time of loss is limited by the cash value of the actual loss or damage. In no case may the insured collect more than the cash value of the actual loss or damage.

When several policies are held by the insured, each insurance company limits its liability to a proportion of the loss no greater than that proportionate amount which the policy bears to the whole insurance covering the particular property against the peril involved, whether collectible or not.

For example, if a property is covered by five \$1,000 policies for a particular risk, and a loss of \$2,000 occurs, the five insurance companies issuing the policies should each contribute one-fifth of the cash value of the actual loss or damage, or \$400. If one of the companies has become insolvent, the four remaining companies will be liable only for \$400 each, so that the insured receives \$1,600 from the four companies. The latter ruling protects the strong companies from having to assume the losses of the weaker ones.

The policies must, of course, cover the same interest. Different interests exist when both the owner and the mortgagee are the insured for the same property.

Cancellations. -- The policy may be terminated at anytime by either the insured or the insurance company.

The insurance company must give the insured five days-written notice in advance of the cancellation date. The insurance company's cancellation notice must either include the amount of unearned premium or state that it will be refunded upon demand.

The insured should receive a pro rata return of his premium. For example, when the insured has a one-year policy upon which he has paid a premium of \$100 and the insurance company cancels the policy after a lapse of 150 days, the policy holder would be entitled to a refund computed as follows:

$$215/365 \times \$100, \text{ or } \$58.90$$

When the insured desires to cancel his policy he gives notice to the company. The cancellation date, however, is fixed as the date on which the policy is returned to the company or agent. In this case the insured is entitled to the unearned premium, but from the pro rata amount a deduction is made to cover expenses incurred in issuing the policy.

Short-rate cancellation tables are used to compute the return of the unearned premium. If an insured has, say, a one-year policy which he cancels at the end of 60 days, he should receive 70 percent of the unearned premium.

Extended Coverage. -- The New York Standard Fire Insurance Policy may be endorsed to cover any losses due to windstorm, cyclone, tornado, hail, explosion, smoke, aircraft, vehicles, riot, and riot attending a strike. The term "smoke" as used in this extended coverage means only

smoke due to a sudden, unusual and faulty operation of any heating or cooking unit only when such unit is connected to a chimney by a smoke pipe and while in or on the premises described in the policy, excluding, however, smoke from fireplaces or industrial apparatus.

On the face of the standard fire policy, a space is left for the insertion of a description of the property to be insured. This is usually effected by the attachment of a rider, known as a form. Added to the form, after the description of the property, there usually appears a number of clauses modifying or waiving the stipulations and condition as printed in the policy.

The form will be ordinary circumstances place the policy in one of the five following categories: (1) Specific, (2) Blanket, (3) Floater, (4) Automatic, (5) Schedule.

Specific Coverage. -- This policy is the most common form in use. It covers one kind of property in one definite location. When the building and contents are insured under a single policy, with definite amounts covered on each, the policy continues to be specific.

Blanket Coverage. -- A blanket policy covers the same kind of property at a single location. Thus, several buildings in different location, or different kinds of property at a single location may be insured under a blanket policy, as may stocks of goods or merchandise located in different warehouses or stores, or building and contents at a single location.

Floating Coverage. -- A floating policy, termed in the insurance busi-

ness "a floater," is used to cover goods in different locations, when it is difficult or impossible to furnish an accurate description of location. One form of floater covers certain specific goods wherever they may be, usually within certain prescribed limits as to territory. For example, the personal effects, theatrical costumes, and equipment of a traveling stock company are located week and week and night after night in different hotels, theaters, trains, boats, automobiles, and terminals. A floater would cover this equipment. A floater would cover this equipment wherever it might be, so long as it remained within the limits prescribed. Such limits might be a single state, the continental limits of the United States, or worldwide.

Automatic Coverage. -- Automatic coverages are written with the so-called reporting forms. They are used when it is difficult, if not impossible to provide the insurance company with an accurate statement of values because of changes or fluctuation, yet when a full insurance coverage is desired. The term thermostatic insurance has been applied to this type of coverage because the amounts are automatically adjusted without action on the part of the insured as the amount of the risk increases or decreases. The multiple location contract utilized by chain stores fall within this category. So long as the required reports are accurately made within the limits of the policy, the insurance automatically adjusts itself to intervening inventory changes. The automatic builder's risk has the same effect. A building in the process of construction adds value day by

day. Monthly reports are required, but a loss at a point between two reports will be protected by full insurance as the values of that day show,

Schedule Coverage. -- Schedule policies are a variation of specific coverage. All the buildings belonging to an insured, with their contents, may be grouped on a single form, instead of on several forms, supplying specific insurance on each property. While specific amounts are indicated for each unit of the property, the policies as written cover proportionately every unit. An organization, such as a state, a municipality, a church with widely scattered properties, or a public utility company, frequently finds this form to be desirable as a means for simplifying the clerical supervision of insurance detail.

When a policy is written with a schedule form, the policy face covers pro rata on each item. It is, therefore, necessary for the insured to provide himself with policies aggregating the total set forth in schedule, for he then knows that each item is covered for the full amount indicated. An enormous amount of detail work in checking a great many different forms and many expirations is by this means eliminated.

After all necessary forms have been attached to the policy, an invoice is made. This includes the name, address, the agent, assignee and mortgagee, and tells to the insured the effective date of policy number, insurance company, property insured, location, expiration date, amount insured, location, amount insured and premium. Three copies of the invoice

are made. One copy is given to the insured, one to the bookkeeper and the third is retained in the office under file. The bookkeeper's copy is used to make up the journal and ledger accounts. This is discussed further in the next chapter.

Cash Intake and Disbursement. -- In the outset a receipt is given to each individual of whom cash is received. The receipt showing the name of the insured, his address, and the number of the policy. Not only does the receipt show the amount of cash paid but designates how it was paid, by cash, money order, check or draft.

At the end of the day, the cashier will compute receipt and cash making sure that both balance. With the total amount of cash on hand the cashier makes up a deposit slip and deposits the cash in bank.

The cash receipts and deposit slips are sent to the bookkeeper who makes the necessary entries in cash receipt journal.

Disbursements, excepting those made to the insurance company, usually are paid by the cashier from petty cash. In the event of large payments, payments are made by check with the approval of the manager.

CHAPTER V

BOOKKEEPING AND ACCOUNTING PROCEDURES

Records and Forms for Every Transaction. -- The first permanent record of a transaction is made on the order blank (which is made up by the agency), and consists of the facts which are noted on the scratch pad. (See chapter on Office Procedures). The order blank provides space for all the details of the transaction. A typical order blank is as follows:

ORDER BLANK

Renewal
New
Rewritten

Insured (Name) _____
Location (Street number, etc.) _____
Amount \$ _____
Terms _____
Cover (Details of Policy Coverage) _____
Agency _____
Fire Insurance Company _____
Mail or deliver to (Name of Assured) _____
Mailing address _____ Date (effective date) _____
Inclosures (Any other Policy) _____ Origin (source of
business) _____

After getting the order and the order blank is properly filled, the next step is to prepare an interim contract to cover the customer pending issuance of the policy. This interim contract is called a binder, and is an informal agreement between the insurance company and the insured. Although very brief, it should contain the main facts of the insurance. Such as, the name of the insured, the location and description of the property, and the time for which the insurance is needed.

The transaction is then recorded on the daily report form. All information contained in the policy, such as name of the insured, terms of the policy, premium payments, and nature and extent of the risk are recorded in the daily report form. It also includes a copy of the policy form as well as space for a diagram and description of property.

Daily reports should be filed in a folder set up especially for copies of all paper pertaining to policy details. In addition to noting down payments on the daily report form, they are entered in the premium register, which is set up for all entries involving premiums. A file must also be set up for cancellations as well as for any funds made as a result of change in policy conditions. Since the agency must return a portion of his commission when the company returns a portion of the premium to the insured, and "unearned commission reserve" should be set up to show the portion of commissions received but not yet earned. The commission is not completely earned until the policy has expired.

A record of receipts and payments may be made on loose-leaf sheets or in books set up for the purpose. All money balances are shown most clearly by ledger entries which, together with journal entries, are discussed in the following paragraphs.

For basic records a journal is used. In this journal a brief description of all transactions are entered, giving the agency a record of every addition, subtraction, or change in the financial status of his business.

These entries are later copied in a ledger, which records the break-

down of all transactions as to types of accounts. The ledger is set up in a series of columns headed by the title of the particular account. In addition to keeping the individual accounts, which give the status of each contract, the agency must maintain a general account in his ledger, (See discussion on Theory of Accounts). In this latter account he will enter summary information on his various accounts, as well as all commissions due and paid. Consequently, an over-all financial picture is shown at all times.

At the end of each month commissions may be calculated by drawing off from the account current the gross premium, the return premium, and the net premium, the last name being the amount remaining after deducting the return premium from the gross. In making up the monthly summary, it is convenient to group all premiums according to the commission rate-17 1/2 percent, 25 percent, 30 percent, et cetera. After entering the net earned commissions in one column, it is desirable to set up another column showing the balance due the insurance company. The entire calculation requires six columns as shown in the illustration.

SUMMARY FOR MONTH*

Percentage Commission Rate	Gross Premium	Return Premium	Net Premium	Commission	Amount Due Co.
17 1/2	_____				
20	_____				
30	_____				

Probably the most important and necessary of all the agency records for insurance transactions will be those which show the expiration date for each policy. After carefully noting such dates the insurance company agency should see to it that the insurance for every building so recorded is properly maintained.

These records may be kept in an expiration register prepared for the purpose, or by a card system.

Here is illustrated a card which would be filed according to the expiration date. If the card is written in duplicate, the second copy would be filed according to the name of the insured.

INSURANCE CARD RECORD*

No. _____	Property _____
House _____	
Insured _____	Loss to _____

Company No.	Date	Expires	Amount	Premium

*See Appendix B

At the end of each month in which expirations occur, all renewal policies written during the month should be checked with the corresponding expiration cards to be sure that all details are correct.

Theory of Accounts. -- The primary purpose of the accounting records in an insurance agents is to exhibit at all times the status of the accounts of the person for whom the agent acts. Incidental to the primary purpose is the necessity of determining the status of the agent's own assets, liabilities, capital, and elements of profit and loss.

The following accounts are required:

1. Cash on Deposit and on Hand. -- Separate accounts of cash on deposit must be maintained, taking account of the equities of other persons therein. The proceeds of collection of insurance accounts receivable should be carried in bank accounts separated from cash which is the unqualified property of the agent. The number of bank accounts may therefore be large. Despite the necessity for separate bank accounts a single Cash on Hand account will suffice if adequate collection records are available.

2. Accounts Receivable Insurance Premiums. -- The cancellation privilege which the agent has for nonpayment of premiums by the assured is of value in mitigating bad debt losses. If the agent exercises ordinary care in passing on credits and does not allow accounts to remain outstanding without, at least, adequate partial payments, he should be able to cancel those policies for which he cannot collect premiums be-

fore any loss becomes appreciable. As in the case of other accounts receivable, an account is required for each assured.

3. Due Employees. -- Sales department employees are usually compensated by receiving a commission computed on the basis of the entire commission received by the agent. As in the case of other businesses operating on such a basis, it frequently becomes necessary or advisable, to advance substantial sums to the sales staff. Under the circumstances surrounding this asset, collection is frequently a matter of doubt. In fact it is sometimes urged as the most conservative policy that all such advances be charged to profit and loss at the close of the fiscal period. For purposes of maintaining a record of future transaction with the salesmen, the amount charged off may be restored on the first day of the succeeding fiscal period. This amounts to placing such advances upon a cash basis.

Accounts Payable for Expenses and Supplies. -- The trade accounts payable may be maintained with a voucher system or as open accounts. As a general matter accounts payable are not of great importance in the insurance agent business.

Accounts Payable, Insurance Companies. -- It is necessary for the agent to maintain ledger accounts with the insurance companies which he represents. A particular agent may have contracts to represent from two to twenty-four different companies. Each company account is credited each month with the amount of net premiums (gross premiums less agent's

commission) due the company from business written by the agent during the month. Company accounts are charged with pro rata net premiums on policies cancelled by the agent or company during the month. The short-rate cancellation basis is used for policies cancelled by the assured. Sources of these entries are policy registers whereon are listed all policies issued by the agent or cancelled during the month. The policy register is a carbon copy of the Account Current, which is mailed to the company by the agent each month. In practice, net debit or credit figure is determined by offsetting cancellations against new business, and only the net figure is entered in the company account payable. Other debits in the accounts are payments of license fees or other changes by the agent as authorized by and for the account of the company, and remittances of net premiums by the agent to the company.

Income and Expense Accounts. -- The nominal accounts required by an insurance agent are those which might be expected from the character of the business, and involve no particularly novel principles. The income accounts are usually entitled commissions, and separate income accounts are carried for each department or phase of activity. It is desirable furthermore to divide expenses by departments or activities for stating profit and loss results in these terms. Expense distribution may be accomplished by any of the means usually employed for this purpose. A certain amount of distribution of overhead expense is sometimes necessary but compensation of employed and the other important expenses may be allocated directly to

the department or activity, in most instances without resorting to arbitrary apportionment.

The volume of business handled by insurance agents is frequently understood to mean the gross premiums and not the gross income of the agent. The commission rates may vary to such an extent that gross premiums are of little significance as related to net profits of the agent. Since by custom these statistics have gained a certain standing, many agents keep memorandum accounts of total gross business handled. When for some reason the data are regularly needed, it is better practice to incorporate the accounts in the general ledger. This plan will require two new accounts: one corresponding to sales in a mercantile business, entitled Gross Premiums, is credited to offset charges to insurance customers' accounts, and the other, entitled Net Premiums, will be charged in the amount credited to insurance company accounts. Agent's commissions earned are determined by offsetting Net Premiums account balances against the balance in Gross Premiums.

CHAPTER VI

IN CONCLUSION

Because of the many technical requirements and responsibilities of an agent to his company and state of authorization, the prospective insurer should ask himself the following questions:

1. Have you filed an application with the insurance commissioner?
2. Do you have references?
3. Does your state require you to pass an examination?
4. Have you passed the examinations required by your state?
5. Do you have a license?
6. Have you an agreement with the companies which you are going to represent?
7. Do you know the conditions of the policies which you are going to sell?
8. Do you have----

Order blanks?

Binders?

Bill forms?

Daily report forms?

Monthly account forms?

Expiration file?

Policy file?

Other necessary insurance record-keeping supplies?

If he is able to answer these questions in the affirmative, then he

has successfully fulfilled the steps and requirements in organizing as
fire insurance agency.

APPENDIXES



ZACK D. CRAVEY
COMPTROLLER GENERAL
AND
INSURANCE COMMISSIONER

State of Georgia
OFFICE OF
Comptroller General
AND
Insurance Commissioner
STATE CAPITOL
Atlanta

HUBERT McDONALD
DEPUTY
INSURANCE COMMISSIONER

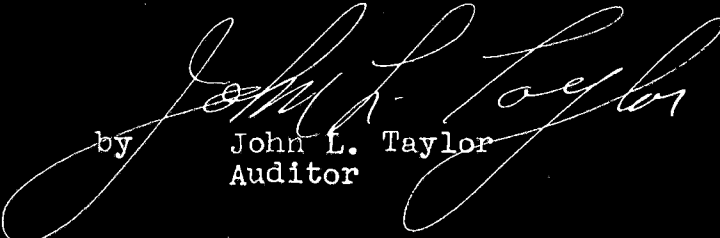
January 16, 1950

TO WHOM IT MAY CONCERN:

This is to certify that Albert H. Saddler
secured information from this office for
thesis material.

Zack D. Cravey
Insurance Commissioner

by


John L. Taylor
Auditor

ZDC/JLT/h

DAY: WA. 0549 NIGHT: RAYMOND 8760
WA. 9301



Alexander & Co.

GENERAL INSURANCE AGENCIES

COURTESY—EFFICIENCY—SERVICE



208 AUBURN AVE., N.E.

ATLANTA 3, GA.

T. M. ALEXANDER	PRESIDENT
W. L. CALLOWAY	VICE-PRESIDENT
BERTRAND MC MILLAN	COMPTROLLER

January 10, 1950

To Whom It May Concern:

This is to certify that Albert H. Saddler in preparation of report did actually and diligently conduct a survey and study of the operations of the ALEXANDER INSURANCE COMPANY.

Respectfully yours,

T. M. Alexander, President

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